

# DSH Reduction Allocation Process Flows

# Overview

- The ACA mandates that the federal share of DSH payments be reduced by a specified dollar amount for each year between 2014 and 2020.
  - The unreduced federal DSH amount for 2014 is estimated at \$11.7 B
  - This unreduced amount must be reduced by the below amounts in each year:

Federal Fiscal Year	Federal Reduction Amount
2014	\$500,000,000
2015	\$600,000,000
2016	\$600,000,000
2017	\$1,800,000,000
2018	\$5,000,000,000
2019	\$5,600,000,000
2020	\$4,000,000,000

- The proposed rule describes how these aggregate reductions will be allocated between states for 2014 and 2015
- Additional guidance will be published for reductions 2016-2020

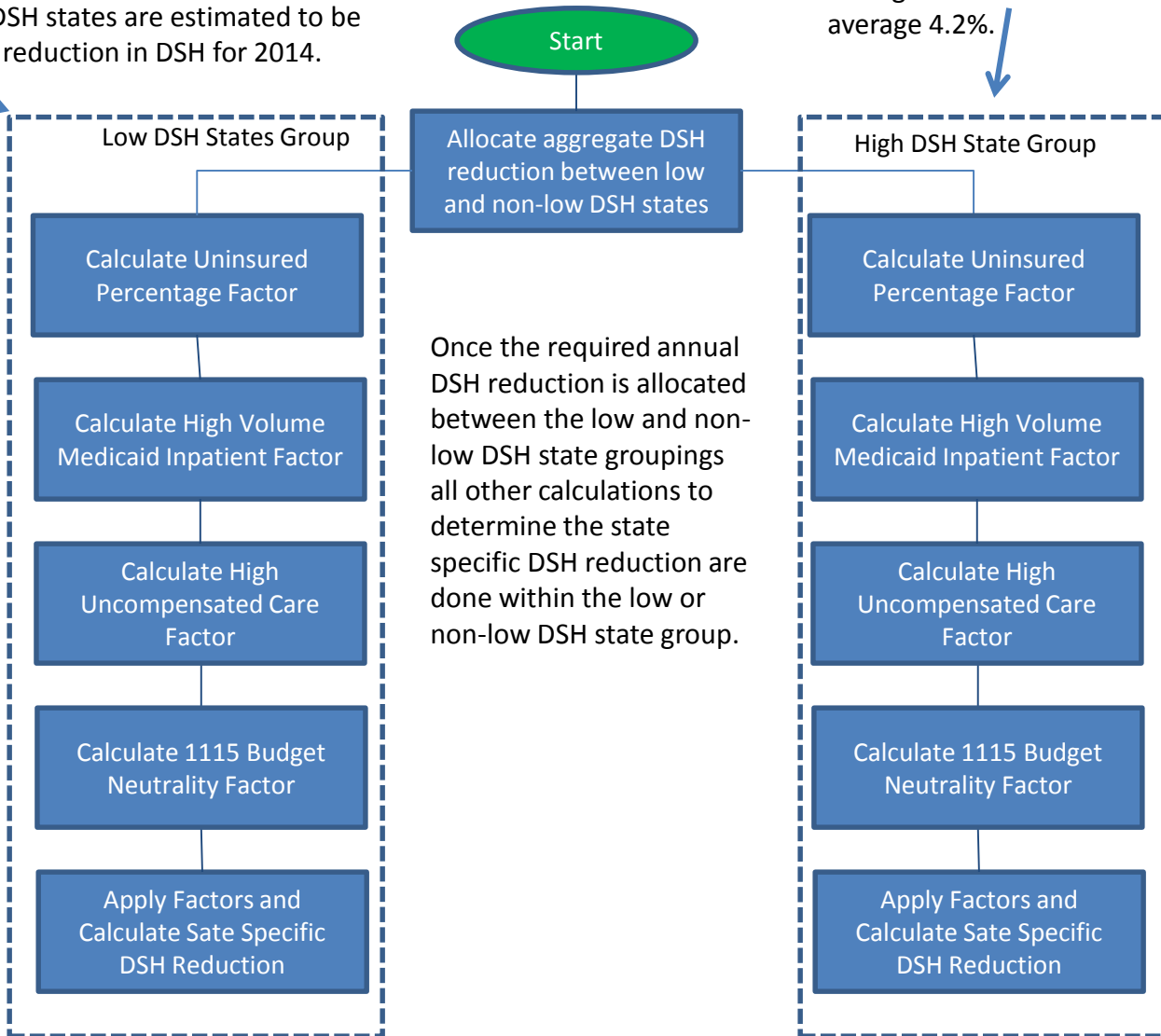
# Determine State DSH Reduction Process Flow

The ACA specifies that Low DSH states receive a lesser reduction than non-low DSH states. On average Low DSH states are estimated to be subject to a 1.2% reduction in DSH for 2014.

Estimated DSH reduction for high DSH states is on average 4.2%.

## Low DSH States

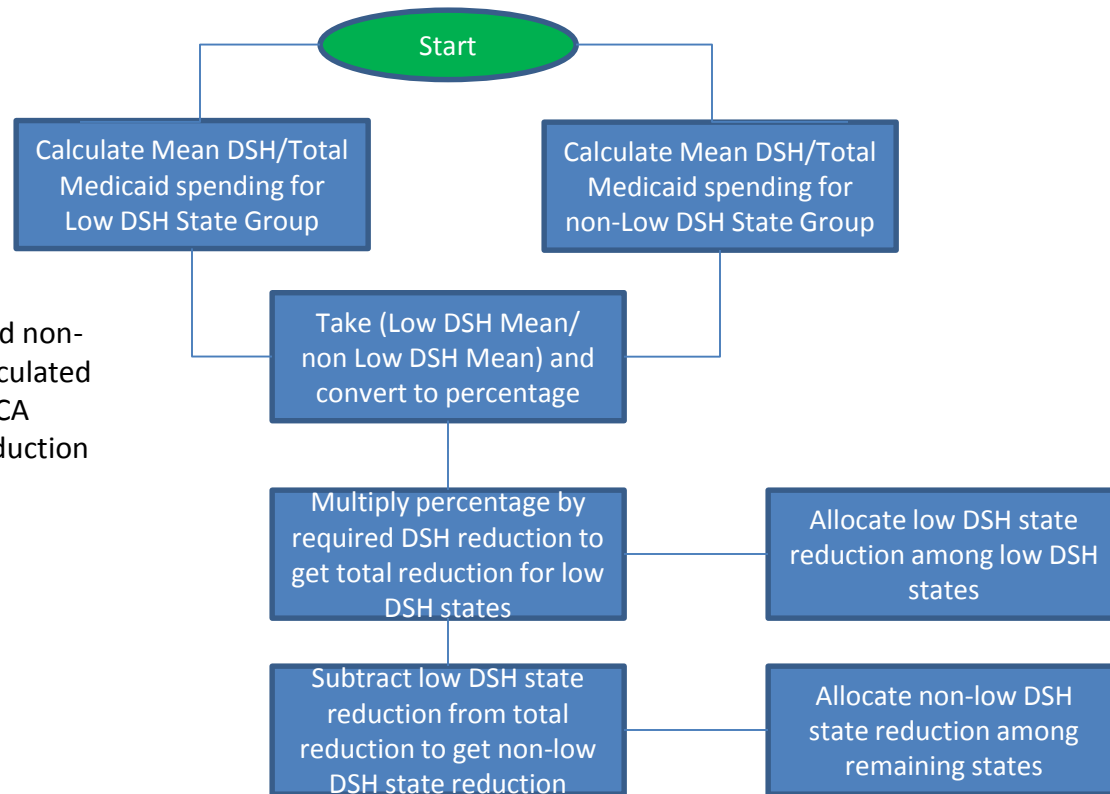
Alaska  
Arizona  
Delaware  
Hawaii  
Idaho  
Iowa  
Minnesota  
Montana  
Nebraska  
New Mexico  
North Dakota  
Oklahoma  
South Dakota  
Utah  
Wisconsin  
Wyoming



## High DSH States

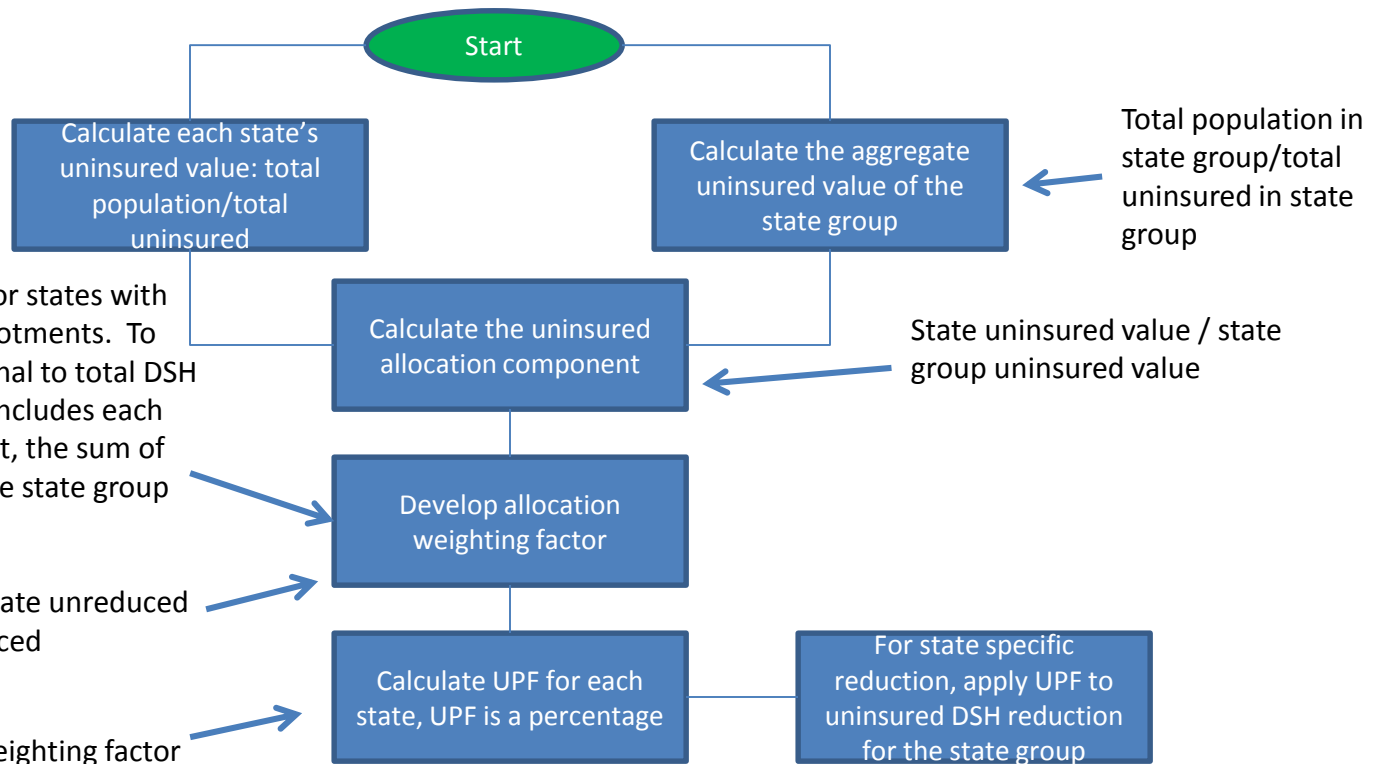
Alabama  
Arkansas  
California  
Colorado  
Connecticut  
District of Columbia  
Florida  
Georgia  
Illinois  
Indiana  
Kansas  
Kentucky  
Louisiana  
Maine  
Maryland  
Michigan  
Nevada  
New Hampshire  
New Jersey  
New York  
North Carolina  
Ohio  
Pennsylvania  
Rhode Island  
South Carolina  
Tennessee  
Texas  
Vermont  
Virginia  
Washington  
West Virginia

**Calculate Low-DSH Group Reduction Factor:** DSH reduction allocation between low and non-low states is calculated as a ratio of mean DSH as a proportion of total Medicaid spending in low DSH states over the mean in non-low DSH states. This ratio is converted to a percentage and applied to the ACA specified annual DSH reduction to determine how much of the reduction is allocated to low DSH states. Total DSH reduction for the low DSH state group in 2014 is \$6.2M and total reduction in non-low DSH state group is \$493.8M.

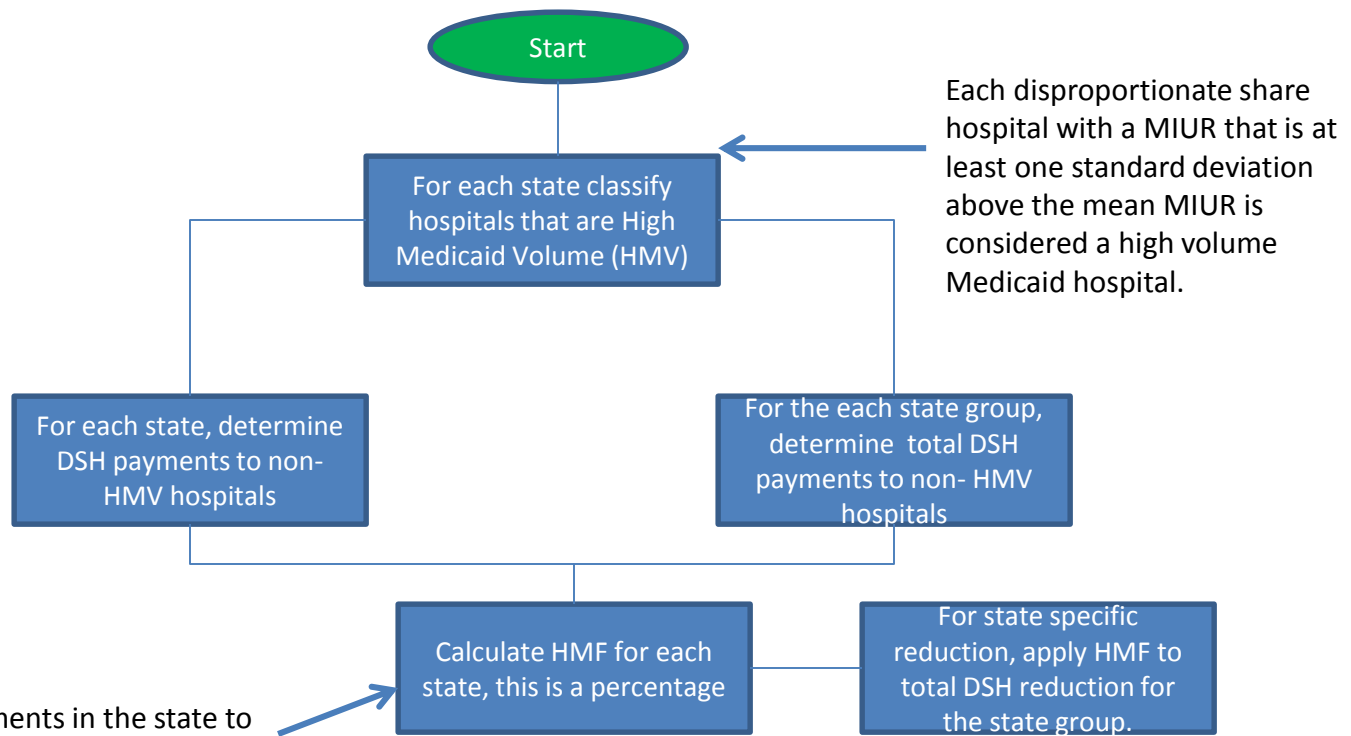


Reduction for low DSH and non-low DSH states will be calculated each year based on the ACA stipulated federal DSH reduction for that year.

**Calculate Uninsured Percentage Factor (UPF):** One third of the total DSH reduction for each state group is assigned to the UPF. In 2014, this is estimated to be \$164.5M for the non-low DSH state group and \$2.1M for the low DSH state group. This factor is based on data reported by the most recent 1-year estimates from the American Community Survey.

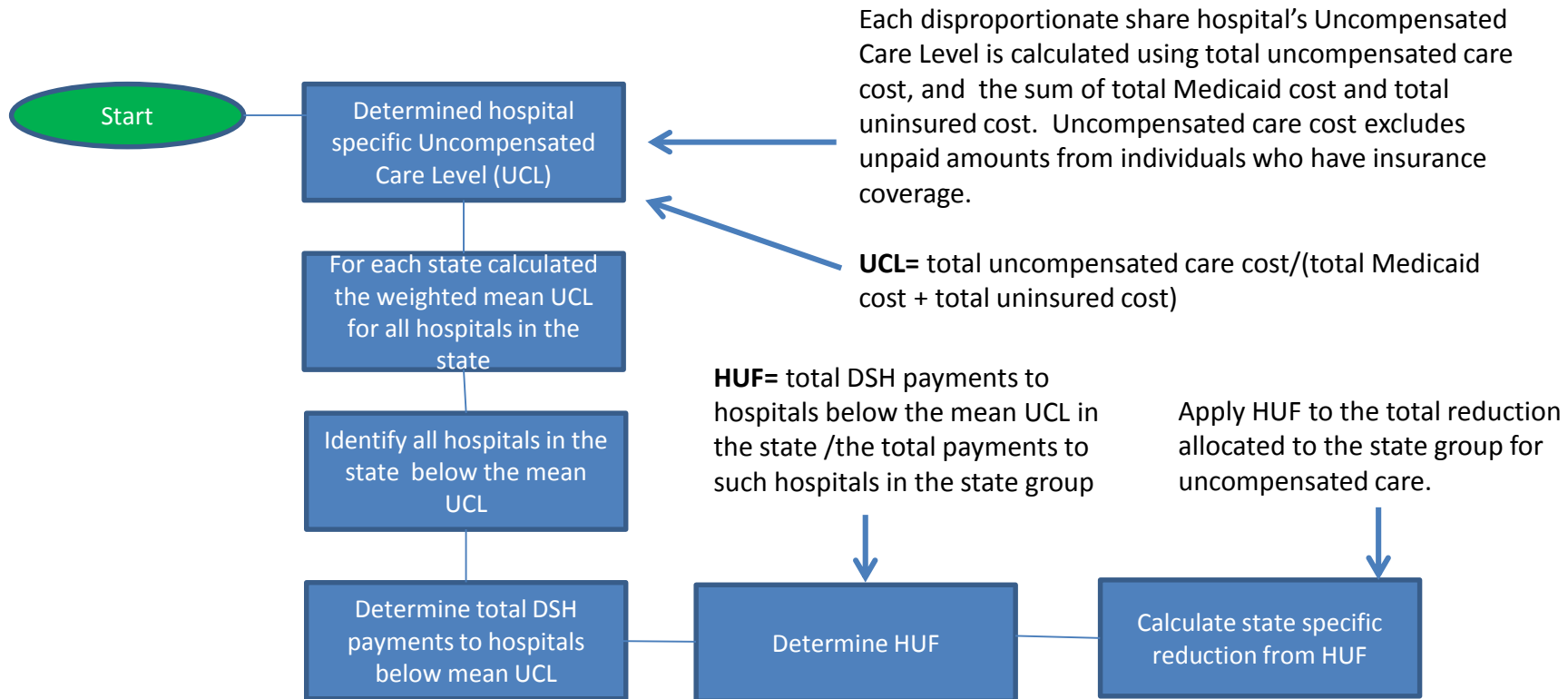


**Calculate High Volume of Medicaid Inpatients Factor (HMF):** One third of the total DSH reduction for each state group is assigned to the HMF. In 2014, this is estimated to be \$164.5M for the non-low DSH state group and \$2.1M for the low DSH state group. This factor uses state reported data on the Medicaid Inpatient Utilization Rate (MIUR) by hospital.



HMF = total payments in the state to non-HMV hospitals / total payments in the state group to such hospitals

**Calculate High Level of Uncompensated Care Factor (HUF):** One third of the total DSH reduction for each state group is assigned to the HUF. In 2014, This is estimated to be \$164.5M for the non-low DSH state group and \$2.1M for the low DSH state group. This factor uses the total level of uncompensated care, total Medicaid cost, and total uninsured cost.



**Calculate Section 1115 Budget Neutrality Factor:** DSH included as part of the budget neutrality agreement for a coverage expansion under an 1115 waiver is excluded from any of the reduction calculations for the state. States with such agreements will exclude DSH involved in budget neutrality agreements for coverage expansions prior to applying any factors.

**Calculate State Specific DSH Reduction:**

- Calculate UPF, HMF, HUF for the state.
- Exclude any amounts of DSH included as part of a budget neutrality agreement for a coverage expansion under a 1115 waiver.
- Multiply UPF, HMF, and HUF for the state by the total DSH reduction allocated to the state group for each factor.
- Sum the result of the UPF reduction, HMF reduction, and HUF reduction.
- The result of the sum is the state specific DSH reduction.
- Calculate reduced DSH by subtracting the state specific DSH reduction from the state's unreduced DSH allotment.